Crown Management Board of Saskatchewan

Annual Report 1989

Crown Investments Corporation
of Saskatchewan

90-05817/

CROWN MANAGEMENT BOARD OF SASKATCHEWAN

ANNUAL REPORT 1989

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Crown Management Board of Saskatchewan
2400 College Avenue
Regina, Saskatchewan
S4P 1C8

LETTER OF TRANSMITTAL

Regina, Saskatchewan
April 30, 1990

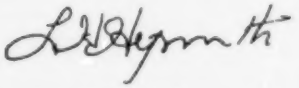
To Her Honour,
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.,
Lieutenant Governor of the Province of Saskatchewan.

Madam:

I have the honour to submit herewith the twelfth annual report of Crown Investments Corporation of Saskatchewan for the year ended December 31, 1989 in accordance with **The Crown Corporations Act, 1978**. The consolidated financial statements are in the form approved by the Treasury Board and have been reported on by our auditors.

I have the honour to be, Madam,

Your obedient servant,



Lorne Hepworth,
Minister Responsible,
Crown Investments Corporation
of Saskatchewan.

BOARD OF DIRECTORS

Hon. Grant Devine
Acting Chairman

Hon. Lorne Hepworth
Minister Responsible
(after April 10, 1990)

Hon. Eric Berntson
Chairman and
Minister Responsible
(to April 10, 1990)

Hon. J. Gary Lane, Q.C.

Hon. George McLeod

Hon. Patricia Smith

Hon. G. J. Schmidt
(after March 16, 1990)

Hon. J. C. Klein
(after March 16, 1990)

Frank Proto
Edmonton

Garnet K. Wells
Edmonton
(to February 14, 1990)

OFFICERS AND SENIOR MANAGEMENT

W. B. Gibson
President and Chief Executive Officer

T. A. Leier
General Counsel

H. E. McEwen
Director, Pensions and Benefits

I. A. Ellis
Director, Corporate Projects

R. D. Rogers
Senior Vice-President

J. L. Wright
Director, Accounting Services

D. A. Marce
Director, Administration and
Secretary to the Board

D. G. Hughes
Director, Corporate Projects

BOARD OF DIRECTORS' REPORT

As the markets of the world become more interdependent and the pace of international business accelerates, it is increasingly apparent that the Province of Saskatchewan cannot base its economic fortunes solely on the cyclical resource sector. The solidifying and broadening of the economic foundation of the Province follows on the heels of diversification of resource management, and growth in manufacturing and production activities. It has been the Government of Saskatchewan's clearly stated goal over the past several years to promote diversification of the Province's economy in such a manner as to encourage the development of resources and the formation of new industry for the benefit of its people. The Government has been actively reducing its involvement in business activities while at the same time encouraging private investment in the Province. In this way the people of Saskatchewan benefit not only from the development of new employment alternatives but also from the opportunity to actually invest in the future of the Province.

The public has been able to purchase shares in many of the Crown corporations as they move from total Government ownership to the private sector. Successful share offerings have been made in the Saskatchewan Oil and Gas Corporation, both directly and through conversion of Saskatchewan Power Corporation Savings Bonds. The public also participated in the purchase of shares of Westbridge Computer Corporation which was formed through a merger of Crown-owned assets and various private sector companies. Most recently, the Province's residents became shareholders of Potash Corporation of Saskatchewan Inc.

The Government of Saskatchewan, through Crown Management Board, has traditionally been the owner of the Province's commercial Crown corporations. As private investment increases, Crown Management Board is moving toward the position of being an investor rather than an operator in the Crown sector. Along with this change in responsibilities, Crown Management Board has been the catalyst in implementing the Government's objectives of encouraging new industry by identifying, supporting and developing commercial projects which build on existing resources. The sale of the pulp mill at Prince Albert and its subsequent integration with a world class paper mill is only one example. Crown Management Board has also been instrumental in the development of Canada's first heavy oil upgrader, and in moving the Government's mining holdings and peat moss industry to the private sector. Crown Management Board is a proponent of other major diversification efforts in which the Province has a stake, notably the construction of a facility to produce nitrogen-based fertilizers, and a zero-effluent chemithermomechanical pulp mill now under construction in Meadow Lake.

Although the Crown sector still struggles in many areas, 1989 was a good year for many Crown corporations and on a consolidated basis, Crown Management Board's operating profit was $216 million.

These successes are in large part the result of hard working and competent management and Boards of Directors and we extend our thanks and appreciation to them. In particular, we acknowledge the efforts of Harold Lane and Wolfgang Wolff who resigned from the Board in 1989, and those of Eric Berntson and Garnet Wells who resigned in 1990.

On behalf of the Board of Directors,

April 30, 1990

Lorne Hepworth
Minister Responsible

PRESIDENT'S REPORT

Crown Management Board reported consolidated income from operations before extraordinary items of $216 million on revenues of $2.0 billion, in the 1989 fiscal year. This return was in large part due to operational efficiencies within the Crown sector, and increasing demand for certain products and services provided by the Crown corporations. Initiatives that have been undertaken by Crown Management Board in promoting industrial expansion by the private sector in Saskatchewan are reflected in the operational results of the Crown corporations. For example, growth in the petroleum and pulp and paper industries translates to increased demands for utilities, services and communications. Saskatchewan Power Corporation, Saskatchewan Telecommunications and Saskatchewan Government Insurance showed strong profits in 1989 as a result.

Whereas an extraordinary gain of $250 million from the sale of assets to Cameco and to Saskoil was realized in 1988, an extraordinary loss of $377 million occurred in 1989. This amount primarily represented a loss on investment in Potash Corporation of Saskatchewan Inc. and resulted in Crown Management Board recording a consolidated net loss of $161 million for the year.

Three of Crown Management Board's past diversification initiatives enjoyed their first full year of operations in 1989: Cameco, NewGrade Energy Inc., and Westbridge Computer Corporation. Weyerhaeuser Canada Ltd., which purchased the pulp mill at Prince Albert in 1986, added state-of-the-art equipment which expanded their product line during 1989 creating thirty-four additional jobs. Crown Management Board has an interest in the new Bi-Provincial Upgrader in Lloydminster along with the Government of Canada, the Government of Alberta, and Husky Oil Ltd. Construction started on the Upgrader in 1989. As well, Crown Management Board sold its investment in a subsidiary corporation, Prairie Malt Limited, to private interests during the year. Included in the sale was a commitment by the purchasers to expand the existing plant, and an employee share purchase plan.

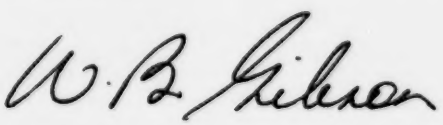
In addition to these achievements, Crown Management Board continued its task in encouraging diversification and expansion of the economic framework of the Province, by continuing negotiations with private companies in order to promote new development.

- In February 1990, Crown Management Board and Cargill Limited reached an agreement to proceed with construction of a plant to manufacture nitrogen-based fertilizers at Belle Plaine. The project has been screened by Saskatchewan Environment and Public Safety and permission has been received to proceed with construction, subject to all regulatory requirements. Construction will start in May 1990 and should provide an average of 600 construction jobs over a 30-month period. It is anticipated that the plant will be operational in the fall of 1992 and will provide direct employment for approximately 130 people, and about 500 jobs in related industries.

- Also in February of 1990, Crown Management Board and Millar Western Industries Ltd. agreed to work together to construct the world's first zero effluent chemithermomechanical pulp (CTMP) mill at Meadow Lake. Construction commenced following approval of the Environmental Impact Statement filed with Saskatchewan Environment and Public Safety. It is expected that approximately 250 people will be employed over the 18-24 month construction period. After the mill becomes fully operational it should provide about 110 direct jobs with another 150 jobs expected in the woodlands industry.

I would like to thank Crown Management Board's employees for their continued professionalism and diligence. I also express my appreciation to the Board of Directors for their direction and support during the year, and in particular the significant contributions of Eric Berntson who has very capably fulfilled the challenging role of Minister Responsible for Crown Management Board over the past three years. His personal attention, assistance and many contributions to our successes are appreciated by all of Crown Management Board's employees.

April 30, 1990



William B. Gibson
President

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Active Crown Corporations, Major Subsidiaries and Investments

Active Crown Corporations	Major Subsidiaries	Major Investments
Agricultural Development Corporation of Saskatchewan	CIC Industrial Interests Inc.	Bi-Provincial Upgrader
Saskatchewan Development Fund Corporation	Saskatchewan Energy Corporation	Cameco - A Canadian Mining & Energy Corporation
Saskatchewan Economic Development Corporation		Millar Western Pulp (Meadow Lake) Ltd.
Saskatchewan Forest Products Corporation		NewGrade Energy Inc.
Saskatchewan Government Insurance		Potash Corporation of Saskatchewan Inc.
Saskatchewan Power Corporation		Saferco Products Inc.
Saskatchewan Telecommunications		Saskatchewan Oil and Gas Corporation
Saskatchewan Transportation Company		Westbridge Computer Corporation
Saskatchewan Water Corporation		

Crown Investments Corporation of Saskatchewan is the legal name of the Corporation established by statute. The Corporation conducts its daily operations under the name Crown Management Board of Saskatchewan.

1989 FINANCIAL PERFORMANCE

OVERVIEW

Crown Management Board of Saskatchewan (CMB) is a provincial Crown corporation, without share capital, operating under authority of **The Crown Corporations Act, 1978**. The Corporation is responsible for administering provincial government policy as it relates to those Crown corporations under its purview with particular emphasis on business efficiency and effective management. Crown corporations are designated as being within the CMB group by Order-in-Council.

Each year the financial statements of CMB are consolidated with the aforementioned Crown corporations as well as other investments to provide the Legislature with financial information relating to the aggregate results of these corporations. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets. The diversified nature of the corporations within the consolidated group is such that the operating results can be affected by events and conditions occurring throughout the world.

Further narrative and financial information relating to the commercial Crown corporations is available in their individual annual reports.

ACTIVE CROWN CORPORATIONS

Agricultural Development Corporation of Saskatchewan (Agdevco)

Agdevco's ongoing responsibilities in 1989 included the exploration of new markets for Saskatchewan agricultural products and expertise both in relation to international projects that the Corporation manages, and in specific trade related initiatives. Agdevco's loss for 1989 was $1.7 million.

During 1989, Agdevco's International Division managed agricultural projects in Lesotho, Zambia, Sudan, China, Pakistan, and Tanzania on behalf of the Canadian International Development Agency (CIDA). Agdevco was not successful in obtaining additional contracts during 1989 as CIDA no longer allows Crown corporations to compete with private sector companies in bidding for new contracts. Because of CIDA's policy change, options to sell Agdevco's ongoing international contracts to the private sector were being discussed at year end.

The Trade Division condensed its trade initiatives with special focus on the USSR, Eastern and Western Europe. Potential trade links with the Kazakhstan region of the USSR were identified, and 1989 saw Agdevco's first export (cattle) to the USSR.

Saskatchewan Development Fund Corporation (SDFC)

SDFC was established in 1974 under **The Saskatchewan Development Fund Act** to perform the duties of trustee, custodian and manager for the Saskatchewan Development Fund, an open-end investment trust. In 1976, SDFC expanded its operations to include an annuity business which offered several different types of annuities to the public. SDFC continues to manage the affairs of the Saskatchewan Development Fund although it no longer offers annuities to the public. The Corporation's administration is conducted under the direction of SDFC's Board of Directors through the use of staff and facilities provided by CMB. SDFC reported net income in 1989 of $164 thousand.

Saskatchewan Economic Development Corporation (SEDCO)

SEDCO's major objective is to promote and facilitate economic development and diversification for viable Saskatchewan companies, by providing a wide range of financial and property services. These include short and long-term loans, property leases and sales of commercial and industrial properties. In 1989 the Corporation assisted in the creation of approximately 1,675 new jobs with an estimated wage value of $35 million. Activities initiated in prior years continue to produce benefits, maintaining an additional 4,000 jobs, $90 million in wages and $4 million in provincial tax revenues in 1989.

The Participation Division is a newly formed division of SEDCO established to administer three new financial programs which became effective May 1, 1989. The programs were designed specifically to assist small business, especially in rural Saskatchewan. During the first eight months of operations this division helped to create 900 new jobs while maintaining a further 1,800.

SEDCO's loss in 1989 was $12.5 million.

Saskatchewan Forest Products Corporation (SFPC)

SFPC produces a variety of lumber and plywood products. Its production facilities include a sawmill at Carrot River and a plywood plant at Hudson Bay. In

1989, SFPC moved its head office from Prince Albert to Hudson Bay. The Corporation also sold the assets belonging to the Prince Albert Wood Preserving Plant, which had been closed since 1988.

SFPC recorded net income of $1.4 million in 1989. Lumber production levels returned to normal during 1989 as the Carrot River planer mill, destroyed by fire in 1988, was reconstructed and operated at capacity. The Corporation also enjoyed increased sales volumes and selling prices for plywood during the year as increased housing starts and reduced American plywood imports led to higher demand for Canadian manufactured plywood.

Saskatchewan Government Insurance (SGI)

SGI is a competitive property and casualty insurer offering a comprehensive line of insurance products and services to homes, farms and businesses in Saskatchewan. SGI also offers optional extended automobile insurance protection and coverage beyond the basic compulsory package provided through the Saskatchewan Auto Fund. All competitive insurance is offered through SGI's sales force of 400 independent agents and brokers.

SGI enjoyed the most successful year in its 44 year history during 1989, recording net income of $22.7 million from general insurance operations. SGI's financial success in 1989 was largely attributable to claims cost control and a careful underwriting and business strategy. This was the fourth consecutive year of profits for the Corporation.

SGI also administers the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. The Saskatchewan Auto Fund provides compulsory automobile insurance for all vehicles registered in Saskatchewan.

Saskatchewan Power Corporation (SaskPower)

For the second consecutive year, SaskPower achieved record earnings. The resulting reduction in SaskPower's total debt load, which had declined from $2.4 billion in 1988 to $1.5 billion in 1989, and the strong earnings performance in the past two years have produced a significant improvement in the financial position of the Corporation.

Consolidated revenues for the year were $683 million, 6.9 per cent higher than 1988, due to an increase in overall demand and a rate increase implemented at the beginning of the year.

Consolidated expenses for the year were $539 million. Better hydro conditions enabled the cost of electricity to be kept at about the same level as 1988 despite higher electric generation requirements. Reductions in finance charges more than offset higher operating, maintenance and administration charges. Finance charges totalling $140 million are at the lowest level since the early part of the 1980s. This reduction was brought about mainly through the buy back and early redemption of high interest rate debt, reduced borrowings due to improved financial performance, increased interest capitalized, a stronger Canadian dollar, and from the sale of SaskEnergy and its associated debt.

Capital expenditures totalling $221 million were $41 million higher than in 1988, due to increased construction activities on the Shand power project. The tie-line with Alberta was placed into service in 1989, completing the final link of the electrical grid system in Canada. Record earnings enabled the Corporation to fund a major portion of its capital expenditure programs from internal sources, placing less reliance on debt financing.

Saskatchewan Telecommunications (SaskTel)

SaskTel's record net earnings of $77.8 million in 1989 was due to the continued streamlining of operations, on-going cost containment measures and increased revenues. Careful management of the Corporation's resources has allowed SaskTel to improve the quality of customer services and to generate new business growth while keeping expenditures down.

Two of the largest projects ever undertaken by SaskTel were nearing completion at the end of 1989. Both the $264 million rural Individual Line Service program and a related $128 million digital switching upgrading program will be completed in early 1991. An additional $146 million is being invested in a network conversion program which will upgrade the remaining central offices and connecting transmission facilities to digital operation by 1995. Another $3.2 million is being invested to provide individual line service to 43 small communities across northern Saskatchewan. This program will be completed by 1995.

The emergence of a new well-defined strategy for business, a skilled workforce, and the use of computer technologies to increase productivity have made it possible for SaskTel to respond more quickly and efficiently to both traditional and new customer

demands. At the end of 1989, SaskTel had 553,137 network access lines in service. Saskatchewan customers originated 135.4 million long distance messages during the year, compared to 125.8 million in 1988.

Saskatchewan Transportation Company (STC)

STC's intercity bus service operates over 5 million route miles annually, servicing approximately 400 communities and 80 per cent of the Province's population. In many parts of the Province, particularly in the rural areas, STC's passenger and parcel express service constitute the only regularly scheduled transportation service. In 1989, STC carried approximately 642 thousand passengers.

Corporate revenues were $14.7 million in 1989, which represented a slight increase over 1988 because of increased passenger revenues. An injection of equity and subsequent repayment of loans allowed a substantial reduction in interest expense in 1989. Consequently, STC reduced its loss to $4.6 million for the year.

Saskatchewan Water Corporation (Sask Water)

Sask Water represents a unique approach to water management in North America. Established on July 1, 1984, Sask Water operates as both a regional water supply utility and as a water management, development and regulatory agency for the Province. Its main responsibility and authority is to manage, administer, develop, control and protect the water and related land resources of Saskatchewan.

The co-existent need for irrigation and drainage, naturally occurring difficulties with water quality and soil salinity, the ever present possibility of drought, and occasional destructive floods are characteristics of the scope of water management requirements in Saskatchewan. From its Moose Jaw head office and regional and branch offices in nine other communities, Sask Water administers a broad range of water related development programs and provides comprehensive water management services for the Province.

For the year ended December 31, 1989, Sask Water earned $1.4 million on revenue of $48.2 million. Included in revenue is an annual grant the Corporation receives from the Province to fund various water management programs.

As in 1988, an important part of the Corporation's activity was an emergency drought assistance program. During 1989, $12.6 million was spent on drought mitigation and long-term drought proofing for individuals and smaller rural towns and hamlets throughout the Province.

MAJOR SUBSIDIARIES

CIC Industrial Interests Inc. (CIC III)

CIC III is a wholly-owned subsidiary of CMB. During 1989, CIC III sold its investment in a subsidiary corporation, Prairie Malt Limited, to ET Corporation of North America and the Saskatchewan Wheat Pool. Included in the sale agreement were commitments for the expansion of existing plant facilities, and an employee Share Purchase Plan. CIC III also acquired 49 per cent of the equity of Millar Western Pulp (Meadow Lake) Ltd., and entered into a joint venture agreement in the Bi-Provincial Upgrader at Lloydminster.

CIC III's investments at December 31, 1989 included 53 per cent voting interest in Saferco Products Inc. which was reduced to 49 per cent on February 5, 1990, 49 per cent voting interest in Millar Western Pulp (Meadow Lake) Ltd., 24.6 per cent voting interest in Saskoil, 17.5 per cent joint venture interest in the Bi-Provincial Upgrader, and a 15.7 per cent voting interest in IPSCO Inc. CIC III also holds various debt instruments, the major one being the Weyerhaeuser Canada Ltd. income debenture.

Saskatchewan Energy Corporation (SaskEnergy)

SaskEnergy is a share capital corporation incorporated under **The Business Corporations Act (Saskatchewan)**. Effective June 1, 1988 SaskEnergy acquired the net natural gas assets and assumed the natural gas operations of SaskPower. At the time, SaskEnergy was owned 100 per cent by SaskPower. Effective December 31, 1989, CMB purchased a 100 per cent interest in SaskEnergy from SaskPower.

During 1989, SaskEnergy recorded net income of $61 million, and capital expenditures for the year totalled $60 million.

Approximately 1,900 new services were installed under the Saskatchewan Natural Gas Distribution Program during 1989. To meet the growing demands of the export market, SaskEnergy undertook major expansions to transmission facilities in the Cypress area

and in northern Saskatchewan. SaskEnergy continued to provide safe, reliable and economical service to its many customers in 1989.

MAJOR INVESTMENTS

Bi-Provincial Heavy Oil Upgrader (Bi-Provincial Upgrader)

The Government of Saskatchewan entered into an agreement with the Government of Canada, the Government of Alberta and Husky Oil Ltd. on September 2, 1988 to finance, build and operate a heavy oil upgrader near Lloydminster, Saskatchewan. CIC III holds a 17.5 per cent participating interest in the project. Construction activities on the upgrader were well underway in 1989, with operations start-up slated to occur near the end of 1992. The project is expected to create approximately 300 permanent jobs at the upgrader itself and up to an additional 1,500 jobs at crude oil recovery sites.

Cameco - A Canadian Mining & Energy Corporation (Cameco)

CMB through Saskatchewan Mining Development Corporation (SMDC), owns 61.5 per cent of the issued common shares of Cameco. Cameco was formed in 1988 when it acquired most of SMDC's assets as well as the assets of Eldorado Nuclear Ltd. In addition to common shares, SMDC owns 1 Class B Share which entitles SMDC to vote separately as a class with respect to any proposal to move Cameco's head office operations to a location outside Saskatchewan.

Cameco is one of the world's largest uranium mining and processing companies, with over $1.5 billion in assets, including interests in uranium and gold mining ventures in Saskatchewan, and a conversion plant and refinery in Ontario. The head office and major administrative functions of Cameco are located in Saskatoon. Cameco reported net income for 1989 of $23.5 million.

Millar Western Pulp (Meadow Lake) Ltd.

Construction began at Meadow Lake in March 1990 on a 240,000 tonne per year chemithermomechanical pulp (CTMP) mill. Permission to construct was granted by Saskatchewan Environment and Public Safety following their review of an environmental impact statement submitted by the project proponents, Millar Western Industries Ltd. of Alberta and CMB. The mill will be the world's first zero effluent CTMP mill, and will be utilizing state-of-the-art technology which maximizes wood usage over that of conventional pulp mills. CMB holds a 49 per cent equity position in the mill. It is expected to be operational by early 1992 and should create approximately 250 jobs during construction and employment for about 260 mill workers and forest-harvesters when it is operational.

NewGrade Energy Inc. (NewGrade)

NewGrade was established to construct, own and operate a heavy oil upgrader in Regina. NewGrade's outstanding voting shares are owned 50 per cent by CMB and 50 per cent by Consumer's Co-operative Refineries Limited (CCRL). Construction of the upgrader was substantially completed in 1988 and was essentially on time and on budget. Operation of the plant started in November 1988 and it is anticipated to achieve full production capacity in 1990.

NewGrade is designed to process 50 thousand barrels per day of Saskatchewan's vast resources of heavy crude oil to provide upgraded crude oil (Reconstituted Crude) to CCRL as a feedstock to their refinery for processing into refined products. The Reconstituted Crude will meet CCRL's feedstock requirements to produce refined products, including propane, butane, gasoline, diesel fuel and furnace oil as well as anode-grade quality coke as a by-product. In addition to the permanent employment of 125 people at the upgrader, NewGrade will promote the development of Saskatchewan's oil and gas fields resulting in additional employment for up to 1,000 persons in related exploration, production and service industries.

Potash Corporation of Saskatchewan Inc. (PCS Inc.)

PCS Inc. is a share capital corporation incorporated under **The Business Corporations Act (Saskatchewan)**. Effective November 9, 1989 PCS Inc. acquired substantially all of the assets and liabilities (on a consolidated basis) previously owned by Potash Corporation of Saskatchewan and PCS Mining Limited. PCS Inc. is listed on the Toronto, Montreal and New York stock exchanges, and reported net income of $82 million in 1989.

CMB, through Potash Corporation of Saskatchewan, owns 31.3 per cent of the voting shares of PCS Inc.

Saferco Products Inc. (Saferco)

In May of 1989, the Affirmation Phase of the Saskatchewan Nitrogen Fertilizer project was launched with the signing of an agreement between CMB and Cargill Limited (Cargill). The objective of this phase was to confirm the commercial viability of a world scale nitrogen fertilizer complex near Belle Plaine, Saskatchewan, through finalizing such critical elements as natural gas contracts, construction costs of the plant on a lump sum fixed price basis, sources of project financing and shareholders' agreements.

In February 1990, CMB and Cargill signed the final agreements to proceed with construction. The plant will be a manufacturing facility capable of producing nitrogen-based fertilizers for use in agricultural markets, using natural gas as a feedstock. The stand-alone plant will have a daily capacity of 1,500 tonnes of anhydrous ammonia and 2,000 tonnes of urea. The nitrogen fertilizer project will operate as a corporate entity with its head office in Saskatchewan. Cargill will own 50 per cent of the company's equity, CMB will own 49 per cent, and a financial institution 1 per cent. Construction will start in the early summer of 1990, and should provide an average of 600 construction jobs over a 30-month period. It is anticipated that the plant will be operational in the fall of 1992 and will provide direct employment for approximately 130 people, and about 500 jobs in related industries.

Saskatchewan Oil and Gas Corporation (Saskoil)

Saskoil is a Saskatchewan based energy company which explores for, develops, produces and markets crude oil and natural gas in western Canada. Prior to December 1985, Saskoil was a provincial Crown corporation operating under **The Saskatchewan Oil and Gas Corporation Act.** In December 1985, Saskoil was continued under **The Saskatchewan Business Corporations Act** and became a share capital corporation.

Saskoil has had several public share issues since December 1985, including two new issues in 1989, which have reduced the consolidated group's voting interest in Saskoil to 24.6 per cent as at December 31, 1989.

Westbridge Computer Corporation (Westbridge)

Westbridge was formed on February 24, 1988 through the merger of the assets of SaskCOMP, the data terminal division and data centre of SaskTel, the Mercury Group of Corporations, Leasecorp Western and 49 percent of the shares of Leasecorp Systems. As a result, Westbridge has become one of the largest corporate computer solutions companies in Canada. Westbridge became a public company in late 1988 with the issue of shares to the public and the acceptance of those shares for listing by the Toronto Stock Exchange. The remaining investment of 58.9 per cent of the outstanding shares of Westbridge owned by the Province are held by SaskTel. Through a program of business acquisitions in 1989, Westbridge has expanded its products and markets to include application systems development in the United States, and the sale and distribution of personal computers throughout Canada.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Consolidated Financial Statements 1989

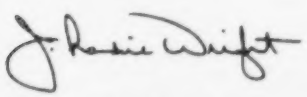
Responsibility for Financial Statements

The management of Crown Investments Corporation of Saskatchewan is responsible for the integrity of the accompanying consolidated financial statements and all other information in this annual report. It is the responsibility of management to prepare financial statements in accordance with generally accepted accounting principles in Canada, applied on a basis consistent with the previous year.

The integrity of the financial records, from which these financial statements are prepared, is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are appropriately recorded in order to permit preparation of financial statements and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The consolidated financial statements have been audited by the independent firm of Ernst & Young, Chartered Accountants. Their report, to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the consolidated financial statements appears on the next page.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee which meets periodically with management and with the independent auditors to review internal accounting controls, audit results and accounting principles and practices.



J. Leslie Wright, Director
Accounting Services

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AUDITORS' REPORT

To the Members of the Legislative Assembly
of Saskatchewan

We have examined the consolidated statement of financial position of **Crown Investments Corporation of Saskatchewan** as at December 31, 1989 and the consolidated statements of operations and reinvested earnings, and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy by an investee as described in Note 14 to the financial statements, on a basis consistent with that of the preceding year.

Ernst + Young

Regina, Canada
April 27, 1990.

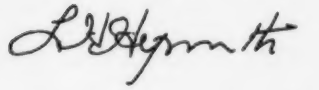
Chartered Accountants

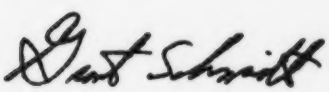
Crown Investments Corporation of Saskatchewan
Consolidated Statement of Financial Position
As at December 31

	Note Reference	1989	1988
		(thousands of dollars)	
			(Note 14)
Assets			
Current			
Short-term investments		**$ 368,296**	$ 289,494
Accounts receivable		**278,546**	329,440
Inventories		**43,052**	117,350
Prepaid expenses		**74,943**	124,664
		764,837	860,948
Long-term investments	3	**2,039,425**	1,546,832
Property, plant and equipment	4	**3,913,626**	4,768,227
Other assets	5	**150,568**	107,253
		$ 6,868,456	$ 7,283,260

(See accompanying notes)

Approved on behalf of the Board:


, Director


, Director

	Note Reference	1989	1988
		(thousands of dollars)	
			(Note 14)
Liabilities and Province's Equity			
Current			
Bank indebtedness		$ 12,218	$ 22,379
Accounts payable and accrued liabilities		440,811	493,868
Notes payable	6	133,354	114,496
Deferred revenue		83,083	73,228
Long-term debt due within one year	7	316,857	358,774
		986,323	1,062,745
Deferred revenue	8	315,249	309,985
Long-term debt	7	4,155,652	4,279,451
Province of Saskatchewan's Equity			
Equity advances	9	940,857	900,000
Reinvested earnings		470,375	731,079
		1,411,232	1,631,079
		$ 6,868,456	$ 7,283,260
Commitments and contingencies	10		

(See accompanying notes)

Crown Investments Corporation of Saskatchewan Consolidated Statement of Operations and Reinvested Earnings

For the Year Ended December 31

	Note Reference	1989	1988
		(thousands of dollars)	
			(Note 14)
Revenue			
Sales of products and services		$ 1,924,051	$ 2,025,388
Investment income		69,099	80,847
Other		48,223	39,244
		2,041,373	2,145,479
Expenses			
Operating costs other than those listed below		1,031,721	1,108,046
Interest	11	459,027	485,085
Depreciation and depletion		244,592	276,322
Saskatchewan taxes and resource payments	12	90,063	90,598
		1,825,403	1,960,051
Income before extraordinary items		215,970	185,428
Extraordinary items	13	(376,674)	249,817
Net income (loss)		(160,704)	435,245
Reinvested earnings, beginning of year as previously stated		722,902	286,069
Adjustment of prior years' amounts	14	8,177	9,765
As restated		731,079	295,834
Dividend to Saskatchewan Heritage Fund		100,000	-
Reinvested earnings, end of year		$ 470,375	$ 731,079

(See accompanying notes)

Crown Investments Corporation of Saskatchewan Consolidated Statement of Cash Flows

For the Year Ended December 31

	1989	1988
	(thousands of dollars)	
		(Note 14)
Cash Provided by (Used In) Operating Activities		
Income before extraordinary items	**$ 215,970**	$ 185,428
Add (deduct) non-cash items		
Depreciation and depletion	**244,592**	276,322
Sinking fund earnings	**(49,924)**	(48,387)
Other non-cash items	**9,934**	22,095
	420,572	435,458
Net change in non-cash working capital balances related to operations	**(61,034)**	(10,409)
Cash provided by operating activities	**359,538**	425,049
Cash Provided by (Used In) Investment Activities		
Proceeds on sale of net assets to PCS Inc.	**1,135,577**	-
Fixed assets - purchases	**(511,702)**	(565,897)
- proceeds on sale	**22,748**	669,685
Investments - purchases	**(1,245,233)**	(394,419)
- sales and collections	**350,993**	73,232
Increase in other assets	**(75,542)**	(2,664)
Cash used in investment activities	**(323,159)**	(220,063)
Cash Provided by (Used In) Financing Activities		
Long-term debt proceeds		
Province of Saskatchewan	**328,261**	640,834
Other lenders	**108,759**	302,822
Long-term debt repayments		
Province of Saskatchewan	**(259,300)**	(391,484)
Other lenders	**(167,433)**	(228,505)
Dividend to Saskatchewan Heritage Fund	**(100,000)**	-
Equity advances from Saskatchewan Heritage Fund	**40,857**	152,770
Increase (decrease) in notes payable	**18,858**	(628,974)
Increase in deferred revenue	**3,780**	29,701
Cash used in financing activities	**(26,218)**	(122,836)
Net Increase in Cash During Year	**10,161**	82,150
Cash Position, Beginning of Year	**(22,379)**	(104,529)
Cash Position, End of Year	**$ (12,218)**	$ (22,379)

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Notes to Consolidated Financial Statements
December 31, 1989

1. Summary of significant accounting policies

The preparation of periodic financial statements involves the use of estimates and approximations as a precise determination of financial data frequently depends upon future events. These consolidated financial statements have been prepared by management within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Consolidation principles and basis of presentation

Certain Saskatchewan provincial Crown corporations are subject to Part II of **The Crown Corporations Act, 1978** (the Act). The Act assigns specific financial and other responsibilities regarding these corporations to Crown Investments Corporation of Saskatchewan (CIC). CIC is responsible for the Province's investments in designated commercial Crown corporations. These Crown corporations pay dividends to CIC upon CIC's direction. Due to the significance of these Crown corporations and their relationship to CIC, the presentation of consolidated financial statements, including the accounts of designated Crown corporations, is considered the appropriate basis of presentation of the financial position and operations of CIC. Separate financial statements for each of the undernoted Crown corporations are prepared and submitted annually to the Legislative Assembly.

The following Crown corporations, which do not have share capital, have been designated as subject to Part II of the Act by Order-in-Council 630/84 (amended by 874/84) and their accounts have been consolidated in these financial statements.

Agricultural Development Corporation of Saskatchewan
Potash Corporation of Saskatchewan (1)
Saskatchewan Computer Utility Corporation
Saskatchewan Development Fund Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Forest Products Corporation
Saskatchewan Government Insurance
Saskatchewan Minerals (2)
Saskatchewan Mining Development Corporation
Saskatchewan Power Corporation
Saskatchewan Telecommunications
Saskatchewan Transportation Company
Saskatchewan Water Corporation

(1) Potash Corporation of Saskatchewan's name was changed to CIC Mineral Interests Corporation on January 10, 1990.

(2) Saskatchewan Minerals was wound up on November 28, 1989.

In addition to the Crown corporations listed above, CIC Industrial Interests Inc. and Saskatchewan Energy Corporation, wholly-owned share capital companies of CIC, are also consolidated in these financial statements.

As at December 31, 1989 the Corporation owned 63 per cent of Potash Corporation of Saskatchewan Inc. (voting interest - 31.3 per cent), 61.5 per cent of Cameco - A Canadian Mining & Energy Corporation and 58.9 per cent of Westbridge Computer Corporation (Note 3). The Corporation has formal plans to reduce its investments in these corporations and therefore the investments are accounted for by the equity method.

b) Inventories

Inventories for resale are generally valued at the lower of average production cost and net realizable value. Other supplies inventory are valued at the lower of cost and replacement cost.

c) Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Long-term investments include shares held in private and public companies plus bonds and debentures.

Investments in shares of companies are recorded at cost except where the Corporation exercises significant influence. Investments where the Corporation exercises significant influence but has less than a controlling interest are accounted for by the equity method. Bonds and debentures are

recorded at amortized cost. Where there has been a decline in the value of an investment that is not considered temporary, the investment is written down to net realizable value.

d) Property, plant and equipment

Property, plant and equipment are recorded at cost and include materials, services, direct labour and overhead costs which are readily identifiable with the construction activity or asset acquisition. Interest associated with major capital and development projects is capitalized during the construction period at the Corporation's weighted average interest rate of long-term borrowings in the current year.

The cost of maintenance, repairs and renewals or replacements are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When property, plant or equipment are disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations with two exceptions. Saskatchewan Power Corporation applies this general policy only to complete asset units. Saskatchewan Telecommunications includes gains or losses in accumulated depreciation.

Mining development costs are capitalized until a project's technical or economical feasibility is determined. If no future benefit to the Corporation exists the development costs are expensed.

e) Depreciation and depletion

Depreciation is recorded on buildings and improvements as well as machinery and equipment costs primarily on the straight-line basis over the estimated productive life of each asset.

Depletion is recorded on deferred property, exploration and development costs, gas production and gathering systems and mining assets according to the unit-of-production method based on estimated proven recoverable reserves.

f) Deferred charges

Deferred charges include financing charges, pre-operating costs and unamortized differences arising from translation of long-term debt in foreign currencies to Canadian dollars.

Unamortized financing charges applicable to the issue of long-term debt are amortized on a straight-line basis over the respective term of each obligation.

Pre-operating costs are amortized over the estimated useful life of the related assets.

g) Deferred revenue

Non-current deferred revenue includes contributions in aid of construction relating to new service connections. These contributions are classified as non-current deferred revenue and are amortized over the estimated service life of the related asset.

h) Foreign exchange translation

Monetary items are translated at the rate of exchange in effect at the year end. Revenue and expenses are translated at rates in effect as they occur. Non-monetary items are translated at the exchange rate prevailing at the time of the transaction.

Long-term debt and related accrued interest, payable in foreign currencies, are recorded at exchange rates prevailing at the year end. Where the translation of long-term debt results in a difference from the previously recorded amount (i.e. translation gains and losses), the difference is deferred and amortized on a straight-line basis over the remaining term of the debt.

i) Leases

As lessee, where the Corporation has substantially all of the benefits and risks incident to the ownership of property, plant and equipment, the lease is classified as a capital lease. Property, plant and equipment recorded as capital leases are amortized on a basis similar to other assets in the same depreciation category. All other leases are

1. Summary of significant accounting policies (continued)

classified as operating leases and lease payments are expensed as incurred.

As lessor, where the Corporation transfers substantially all of the benefits and risks incident to the ownership of the property, plant and equipment to the lessee, the lease is classified as a sales-type lease or direct financing lease. All other leases are classified as operating leases and lease payments are recorded as income.

2. Status of Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan, then named The Government Finance Office, was established by Order-in-Council 535 dated April 2, 1947, and continues under the provisions of **The Crown Corporations Act, 1978**, as Crown Investments Corporation of Saskatchewan. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan.

The Corporation is a Provincial Crown corporation and therefore not subject to Federal or Provincial income tax.

3. Long-term investments

	Voting Percentages	1989	1988
		(thousands of dollars)	
Cameco - A Canadian Mining & Energy Corporation 6,385,906 common shares (Note 14)	61.5%	$ 545,106	$ 530,642
Potash Corporation of Saskatchewan Inc. 22,051,700 common shares	31.3%	399,150	-
Saskatchewan Oil and Gas Corporation 25,024,048 common shares	24.6%	185,648	142,247
NewGrade Energy Inc. Common shares and debentures	50.0%	116,220	122,713
Westbridge Computer Corporation 4,413,333 common shares	58.9%	32,636	30,900
Other equity investments		18,282	29,935
Other shareholdings - cost basis		66,672	62,014
		1,363,714	918,451
Bonds and debentures		292,186	300,208
Loans and notes receivable		291,903	241,515
Property holdings		63,920	60,511
Leases receivable		27,702	26,147
		$ 2,039,425	$ 1,546,832

a) The 22,051,700 common shares of Potash Corporation of Saskatchewan Inc. (PCS Inc.) represent 63 per cent of the outstanding voting common shares of PCS Inc. However, a formal plan exists to dispose of 11,100,000 common shares over the next three years as follows.

On December 1, 1989, the Province of Saskatchewan issued $192 million of Potash Ownership Bonds for sale only to Saskatchewan residents. These bonds contain a feature allowing the holders of the bonds to exchange the bonds for a certain number of shares of PCS Inc. owned by the Corporation. To fulfill the terms of this exchangeability feature of the ownership bonds 11,100,000 common shares of PCS Inc., owned by the Corporation, were placed in trust with a Trustee. The bonds may be exchanged for shares by the holders of the bonds any time after December 1, 1990 and prior to the maturity of the bonds on December 1, 1992. Upon exchange, the Corporation reduces its corresponding debt owing to the Province at the stated exchange price.

The holder of each ownership bond will have the right, subject to certain restrictions, to direct the voting of the PCS Inc. common shares for which the ownership bonds are exchangeable. Any shares remaining in trust on December 1, 1992 will be transferred by the Trustee to the Corporation.

Accordingly, the cost method has been adopted to account for the 11,100,000 shares held in trust and the equity method to account for the remaining 10,951,700 shares held unencumbered as an investment in PCS Inc. Further information relative to the valuation of these shares is disclosed in Note 13.

b) The 25,024,048 common shares of Saskatchewan Oil and Gas Corporation (Saskoil) represent 44.1 per cent of Saskoil's common shares outstanding at December 31, 1989. However, 9,181,138 of these common shares are held by a Trustee and are to be used for the exchange feature of the Saskatchewan Power Corporation (SPC) exchangeable bonds (Note 7). SPC shall not, under any circumstances, have the right to direct the Trustee to vote these Saskoil shares. As a result the voting percentage of Saskoil held by the Corporation is 24.6 per cent at December 31, 1989. Any of these shares remaining after the expiration of the exchange feature are to be sold by the Trustee to corporations or individuals other than SPC or any related entity.

c) CIC owns 50 per cent of the outstanding voting non-participating shares, 100 per cent of the non-voting participating shares and 100 per cent of the outstanding subordinated debentures of NewGrade Energy Inc. (NewGrade).

CIC has agreed to provide funding to NewGrade, to a maximum of $158 million and under certain circumstances a further amount not to exceed $62.5 million, for the purpose of assisting NewGrade in the construction and start-up of a heavy oil upgrader. During 1989, CIC further agreed to provide additional amounts to NewGrade up to $75 million to fund cash deficiences experienced as a result of start-up difficulties. To December 31, 1989, CIC had made investments in NewGrade of $175.9 million (1988 - $122.7 million).

CIC has pledged all of the securities purchased from NewGrade as collateral security for NewGrade's loans. In addition, the Province of Saskatchewan has guaranteed indebtedness of NewGrade to a maximum of $360 million.

d) Included in bonds and debentures is an income debenture from Weyerhaeuser Canada Ltd. Interest is earned and principal collected according to cash flow formulas. Interest is being recognized in income as it becomes receivable in accordance with the cash flow formulas.

3. Long-term investments (continued)

e) The market values of the Corporation's equity accounted investments in securities listed on public stock exchanges at December 31, 1989 were as follows:

	1989	1988
	(thousands of dollars)	
PCS Inc.	$ 339,045	$ -
Saskoil	$ 347,209	$ 245,165
Westbridge	$ 54,063	$ 40,075

f) In 1989 losses from equity investments amounted to $25.4 million compared to income of $15.4 million (restated - Note 14) in 1988.

4. Property, plant and equipment

	1989	1988
	(thousands of dollars)	
Machinery & equipment	$ 4,673,977	$ 4,952,286
Buildings & improvements	514,866	938,439
Plant under construction	279,263	252,442
Deferred development costs	10,630	217,245
Capital leases	4,498	108,279
Land	83,688	103,526
	5,566,922	6,572,217
Accumulated depreciation and depletion	(1,653,296)	(1,803,990)
	$ 3,913,626	$ 4,768,227

5. Other assets

	1989	1988
	(thousands of dollars)	
Natural gas in storage	$ 61,409	$ 4,800
Deferred financing charges	37,848	41,631
Pre-operating costs	-	13,515
Deferred foreign exchange translation losses	1,629	4,782
Other deferred charges	49,682	42,525
	$ 150,568	$ 107,253

6. Notes payable

Notes payable include $133 million (1988 - $103 million) due to the Province of Saskatchewan's Consolidated Fund. These notes are primarily interest-bearing having an average annual interest rate of 12.25 per cent (1988 - 10.94 per cent).

7. Long-term debt

Years to Maturity	1989 Principal Outstanding U.S. Dollars	1989 Principal Outstanding Canadian Dollars	1989 Average Interest Rate	1988 Principal Outstanding	1988 Average Interest Rate
		(thousands of dollars)			
A. Province of Saskatchewan					
Canadian Dollar Issues					
1 - 5 years		$ 1,110,215	7.98	$ 873,133	7.67
6 - 10 years		430,810	9.60	325,310	8.96
11 - 15 years		1,071,726	11.45	938,312	10.91
16 - 20 years		543,773	10.12	698,523	10.63
		3,156,524		2,835,278	
United States Dollar Issues					
1 - 5 years	$ 805,302	1,013,548	8.91	1,309,607	10.28
6 - 10 years	-	-	-	-	-
11 - 15 years	-	-	-	-	-
16 - 20 years	354,593	410,794	8.86	422,853	8.86
	$ 1,159,895	1,424,342		1,732,460	
		4,580,866		4,567,738	
Less sinking fund balance		(426,925)		(404,643)	
TOTAL DUE TO PROVINCE OF SASKATCHEWAN		4,153,941		4,163,095	
B. Other long-term debt					
Saskatchewan Power Corporation Savings Bonds (due 1990 to 1991)		190,807	8.5-11	349,289	8.5-9.25
Saskatchewan Telecommunications Telebonds due March 1, 1994		106,111	11 & 14	-	-
Capital lease obligations (Note 15)		4,812	Various	100,064	Various
Other (due 1990 to 2013)		16,838	Various	25,777	Various
TOTAL OTHER LONG-TERM DEBT		318,568		475,130	
		4,472,509		4,638,225	
Less due within one year		(316,857)		(358,774)	
TOTAL LONG-TERM DEBT		$ 4,155,652		$ 4,279,451	

7. Long-term debt (continued)

There is a requirement, attached to certain interest-bearing issues from the Province of Saskatchewan, to make annual payments to the Province in amounts representing one per cent to three per cent of the original issue. These annual payments are invested by the Province with the cumulative aggregate being available for the retirement of the issues on their maturity dates and are noted above as sinking fund balance.

Certain issues received from the Province of Saskatchewan in the amount of $850 million (1988 - $828 million) require that the issues be subject to redemption on six months notice.

The interest rate on the Saskatchewan Power Corporation Savings Bonds can be increased at the discretion of the Minister of Finance of the Province. The bonds are subject to redemption semi-annually until maturity at the option of the bondholder.

Saskatchewan Power Corporation Savings Bonds Series VE, in the amount of $97 million (1988 - $127 million) are exchangeable, at the option of the holder, at any time after December 20, 1988 and prior to maturity on July 6, 1991, for 9.5 common shares of Saskoil per $100 principal amount of Exchangeable Bond (Note 3). Bondholders who exercised the exchange privilege before July 6, 1989 received one additional common share per $100 principal amount.

Saskatchewan Telecommunications issued its initial offering of Telebonds on March 1, 1989. Interest Telebonds pay interest annually commencing in 1990 while Credit Telebonds pay interest monthly by way of credit to the designated customer's telephone account. At December 31, 1989, there were $69.6 million of Interest Telebonds (interest at 11 per cent) outstanding and $36.5 million of Credit Telebonds (interest at 14 per cent).

Sinking fund and debt retirement requirements for the next five years are as follows (thousands of dollars):

1990	**-**	**$ 316,857**
1991	**-**	**$1,064,492**
1992	**-**	**$ 456,705**
1993	**-**	**$ 408,873**
1994	**-**	**$ 36,832**

Long-term debt payable in United States dollars (excluding debt subject to cross currency swaps and hedging agreements) has been translated into Canadian dollars at a year-end exchange rate of 1.159 (1988 - 1.193).

8. Deferred revenue

	1989	1988
	(thousands of dollars)	
Contributions in aid of construction	$ 208,771	$ 198,981
Deferred grant revenue	8,995	25,895
Unamortized foreign exchange gains	25,025	20,975
Other	72,458	64,134
	$ 315,249	$ 309,985

9. Province of Saskatchewan's equity

Equity advances received from the Saskatchewan Heritage Fund are non-interest bearing and are repayable at the discretion of the Province.

10. Commitments and contingencies

CIC and its consolidated corporations had the following significant commitments and contingencies as at December 31, 1989:

a) Forward purchase commitments of $1,454 million for natural gas and $1,912 million for coal contracted for future minimum deliveries valued at current prices.

b) Capital expenditure commitments for approximately $1,020 million.

c) Commitment to provide funds for certain construction works. The estimated cost of the works is $120 million and the Corporation's share is expected to be $48 million. The Corporation has advanced $31 million at December 31, 1989 which is included in plant under construction.

d) Contingent liability as endorser of certain promissory notes due in 2003. In addition, there is a contingent liability for lease payments on certain

leased mining equipment. The lease expires in 2005. The total amount of these contingencies is $95 million. Pursuant to an agreement, the Corporation has been indemnified from further liability under these lease obligations.

e) Unconditional guarantee of certain indebtedness incurred by an investee corporation under the terms of a lease. The liability under the guarantee is limited to $65 million.

f) The Corporation is contingently liable for loan guarantees totalling $7 million.

g) The Corporation is the defendant to several unresolved statements of claim. The Corporation has provided in its accounts for these claims in accordance with the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

11. Interest expense

	1989	1988
	(thousands of dollars)	
Interest on long-term debt	$ 516,548	$ 531,301
Amortization of foreign exchange (gains) and losses	(14,075)	(25,096)
Amortization of deferred financing costs	8,538	9,433
	511,011	515,638
Less		
Sinking fund earnings	(49,924)	(48,387)
Interest capitalized	(17,170)	(20,179)
	(67,094)	(68,566)
Long-term debt interest expense	443,917	447,072
Short-term debt interest expense	15,110	38,013
	$ 459,027	$ 485,085

12. Saskatchewan taxes and resource payments

The following Saskatchewan taxes and resource payments were made by the corporations mentioned in Note 1a) excluding PCS Inc., Cameco and Westbridge.

	1989	1988
	(thousands of dollars)	
Resource royalties and payments		
Oil, gas and coal royalties	$ 19,144	$ 18,072
Potash royalties and payments	12,632	15,820
Uranium royalties	-	4,310
Timber dues	1,374	1,522
Sodium sulphate royalties	-	51
	33,150	39,775
Grants in lieu of taxes to municipalities	31,194	29,670
Capital tax	21,349	17,983
Insurance premium tax	4,922	5,217
Other	802	1,303
Total paid or payable	91,417	93,948
Less inventoried and capitalized	(1,354)	(3,350)
	$ 90,063	$ 90,598

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments.

13. Extraordinary items

Extraordinary items include the following:

	1989	1988
	(thousands of dollars)	
Loss on investment in PCS Inc.	$ (441,546)	$ -
Gain on sale of assets to Saskoil	49,665	45,442
Extinguishment of deferred tax liability	11,355	-
Gain on sale of assets to DirectWest Publishers Ltd.	3,852	-
Gain on share issue (Cameco - Note 14)	-	202,724
Gain on share issue (Westbridge Computer Corporation)	-	9,243
Loss on sale of peat moss and sodium sulphate assets	-	(5,032)
Other items	-	(2,560)
Total extraordinary items	$ (376,674)	$ 249,817

a) The Corporation sold 12,948,300 commmon shares of PCS Inc. on November 9, 1989 for net proceeds of $208 million. The book value of these shares exceeded the net proceeds resulting in a loss of $179 million. In addition, 11.1 million shares of PCS Inc. were transferred to a trust on December 8, 1989 to fulfill the exchange feature of the Potash Ownership Bonds. The bonds will be exchangeable for 5.55 common shares of PCS Inc. per $100 principal amount of bonds. As a result of the exchange feature, during the next three years any appreciation in the value of the 11.1 million shares held in trust will not accrue to the Corporation. Therefore the carrying value of the 11.1 million shares has been reduced to the exchange value of $18 per share resulting in a loss of $132 million.

The issue of shares in a public secondary offering has been considered by the Corporation as a confirming event as to the value of the 10.9 million shares held as an investment in PCS Inc. As a result the carrying value of these 10.9 million shares has been reduced to an amount equal to the public offering price of $18 per share resulting in a loss of $131 million.

b) On May 1, 1988, certain interests in petroleum and natural gas properties and related equipment were sold to Saskatchewan Oil and Gas Corporation (Saskoil) with part of the consideration received consisting of Saskoil common shares. The Corporation's gain on the sale of the properties is included in income to the extent that the Corporation's Saskoil common shares are sold to parties external to the consolidated group.

c) During the year, Saskoil amalgamated with ICG Resources Ltd. (ICGR). Upon amalgamation, Saskoil's and ICGR's tax pools were consolidated resulting in the extinguishment of ICGR's deferred tax liability. The Corporation's proportionate share of this extinguishment was $11.4 million.

d) An extraordinary gain of $3,852,000 resulted from the sale of systems software and other assets to DirectWest Publishers Ltd. (DirectWest). The Corporation retains a 10 per cent interest in DirectWest.

14. Adjustments of prior year's amounts

a) Reinvested earnings at December 31, 1988 and December 31, 1987 have been increased by $8.2 million and $9.8 million respectively to reflect a retroactive change in an investee corporation's method of inventory valuation. Prior to 1989, all costs of Cameco's mining and milling activities were allocated to finished uranium concentrates inventory. In 1989, Cameco changed its method of accounting for mining costs so that mining costs are allocated to broken ore as it is stockpiled. The cost of broken ore which then enters the milling process is allocated, along with milling costs, to uranium concentrates inventory.

The Corporation's 1988 net income, previously reported as $436.8 million has been reduced by $1.6 million to reflect the retroactive adoption of this change in accounting policy. The 1988 Statement of Operations and Reinvested Earnings has been restated to report the effect of the change in

accounting policy. The $9.8 million restatement relates to years prior to December 31, 1987.

The adoption of this change in accounting policy increased the Corporation's share of Cameco earnings by $6.4 million in the 1989 financial statements.

b) Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

15. Leases

a) The Corporation, as lessee, has entered into capital leases whereby substantially all of the benefits and risks of ownership have been transferred to the Corporation from the lessor. Commitment information related to these leases is as follows:

	1989	1988
	(thousands of dollars)	
Future minimum lease payments		
1989	$ -	$ 16,945
1990	2,511	16,933
1991	2,509	16,930
1992	395	16,871
1993	-	16,859
Thereafter	-	97,490
Total minimum lease payments	5,415	182,028
Less amount representing interest and executory costs	(603)	(81,964)
Balance of obligation	4,812	100,064
Less current portion	(2,087)	(4,953)
	$ 2,725	$ 95,111

b) All other leases entered into by the Corporation, as lessee, were operating leases with future minimum lease payments as follows (thousands of dollars):

1990	$ 36,085
1991	36,332
1992	35,151
1993	35,224
1994	22,242
Thereafter	4,046
	$ 169,080

16. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and non-Part II Crown corporations with which the Corporation is related. Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements.

During 1989 Saskatchewan Water Corporation received $32 million (1988 - $33 million) in grants from the Consolidated Fund.

As at December 31, 1989, $199 million was invested at interest with the Consolidated Fund and is included in short-term investments.

17. Pensions

Substantially all employees of the Corporations included in these financial statements are participants in either defined contribution or defined benefit pension plans.

Based on the latest actuarial valuations, the present value of the accrued pension benefits of the defined benefit pension plans is $776 million which approximates the estimated market value of the pension funds' assets.

CROWN MANAGEMENT BOARD OF SASKATCHEWAN

Crown Investments Corporation of Saskatchewan
2400 College Avenue
REGINA, Saskatchewan
S4P 1C8

Inquiry No. (306)787-6851
Acting Chairman: Hon. D. G. Devine
President: Mr. William B. Gibson

Agricultural Development Corporation of Saskatchewan
Trade and Convention Centre
1100 - 1919 Saskatchewan Drive
REGINA, Saskatchewan
S4P 3V7

Inquiry No. (306)787-5035
Chairman: Hon. R. J. Swenson
President: Mr. Bruce Hanson

Saskatchewan Development Fund Corporation
Ste. 300-2400 College Avenue
REGINA, Saskatchewan
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Inquiry No. (306)787-1645
Chairman: Mr. Allan McDougall, F.C.S.I.
General Manager: Mr. William B. Gibson

Saskatchewan Economic Development Corporation
1106 Winnipeg Street
REGINA, Saskatchewan
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Inquiry No. (306)787-7200
Chairman: Mr. Douglas R. Osborne
President: Mr. Douglas S. Price

Saskatchewan Forest Products Corporation
P. O. Box 40
HUDSON BAY, Saskatchewan
S0E 0Y0

Inquiry No. (306)865-2201
Vice-Chairman: Hon. George McLeod
General Manager: Mr. Dale Vizina

Saskatchewan Government Insurance
2260 - 11th Avenue
REGINA, Saskatchewan
S4P 0J9

Inquiry No. (306)565-1200
Chairman: Mr. Allan W. Wagar
President: Mr. Alex Wilde

Saskatchewan Power Corporation
2025 Victoria Avenue
REGINA, Saskatchewan
S4P 0S1

Inquiry No. (306)566-2121
Chairman: Mr. Donald Stankov
President: Mr. George D. Hill, Q.C.

Saskatchewan Telecommunications
2121 Saskatchewan Drive
REGINA, Saskatchewan
S4P 3Y2

Inquiry No. (306)777-3737
Chairman: Mr. Graham Walker
President: Mr. James Coombs

Saskatchewan Transportation Company
2041 Hamilton Street
REGINA, Saskatchewan
S4P 2E2

Inquiry No. (306)787-3353
Chairman: Mr. William Rudichuk

Saskatchewan Water Corporation
Victoria Place
111 Fairford Street East
MOOSE JAW, Saskatchewan
S6H 7X9

Inquiry No. (306)694-3900
Chairman: Hon. Harold Martens
President: Mr. Brian F. Woodcock